

NEWS RELEASE
MONTANA PUBLIC SERVICE COMMISSION

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PSC balks at proposed rate increase

HELENA - The five-member Montana Public Service Commission grappled for almost four hours Thursday with a utility's request to increase rates to pay for a roughly \$12 million increase in property taxes.

Commissioners considered numerous motions, but ultimately took no action on NorthWestern Energy's application to recover the utility's state property and energy taxes paid to the state of Montana.

Without Commission action, the rate increase automatically goes into effect by operation of law.

Because of the law, the taxes were reflected in rates beginning Jan. 1. A typical residential electricity customer using 750 kWh should expect to see a monthly increase of \$1.19, or 1.43 percent on average while the bill for a typical natural gas customer using 10 dekatherms should increase by \$1.82, or 2.23 percent on average.

This year's jump in taxes comes in part after the Montana Department of Revenue increased the utility's taxable value on transmission and distribution facilities used to serve Montana customers.

Chairman Bill Gallagher, R-Helena, was critical of both the Department of Revenue's assessment policy and a tax law that places higher tax rates on public utilities, citing the hardship on ratepayers who pay the bill. He viewed the Commission's inaction as a sign of disapproval.

"Even though the law requires these taxes be passed through to ratepayers without our approval, not approving the request was my way of protesting state government's reaching into the pockets of ratepayers to the tune of 20 percent of their utility bill being state taxes," Gallagher said.

Commissioners, frustrated with the mandated tax pass through, struggled with the issue during Thursday's work session.

Commissioners Roger Koopman, R-Bozeman, Vice Chairman Bob Lake, R-Hamilton, and Travis Kavulla, R-Great Falls, all made unsuccessful motions during the meeting.

"It's very difficult for us but Montana law allows the utility a direct pass through on all taxes that ultimately go onto monthly ratepayer bills," Lake said.

Kavulla made two motions including an unsuccessful effort to disallow \$1 million in property tax expenses related to Construction Work in Progress, or CWIP.

"The Commission is allowing NorthWestern's property tax expense to be recovered from ratepayers, even when the underlying property is not useful to Montana ratepayers," he said. "I strongly believe the Commission should have embraced the advocacy of the Montana Consumer Counsel and disallowed this expense."

The other commissioners did not agree, however, citing concerns that any CWIP taxes left uncollected would likely be added to the capitalized cost of the construction project, which would allow the utility to earn a profit, or rate of return, on the unpaid taxes over the life of the project once constructed.

Koopman's unsuccessful motion would have required NorthWestern Energy to inform its customers of how much of their bills are represented by taxes - currently 18 to 20 percent.

"There is nothing more frustrating than to see a rate increase go into effect that, by law, commissioners are powerless to stop," he said. "These hikes hurt most, the very people who can afford them the least. Ratepayers need to understand though, that the current increases do not profit the utility company, only the tax collector."

The Commission ended its meeting with no action taken on the utility's request.

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